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Q1FY22 result review and reco change

Telecom

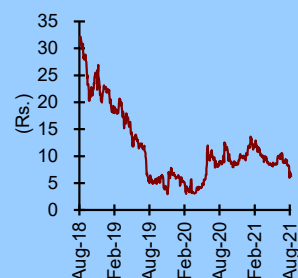
Target price: Under
review

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	72.1	72.1	72.0
Institutional investors	7.5	5.7	5.6
MFs and other	1.0	0.6	0.9
FIs / Banks	0.0	0.0	0.0
Insurance Cos.	0.4	0.5	0.4
FII's	6.1	4.6	4.3
Others	20.5	22.2	22.4

Source: NSE

Price chart



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INDIA

ICICI Securities

Vodafone Idea Ltd

Under review
Change from SELL

Falling cash generation, rising liabilities

Rs6

Vodafone Idea's (VIL) Q1FY22 cash EBITDA at Rs13.8bn shows fast deteriorating cashflow, while liabilities are rising; we see high risk and huge concern for VIL. In the wake of growing uncertainties, we have put VIL's estimates, rating and target price under-review until further clarity. We believe existing operation is unlikely to meet upcoming payouts, and risk of default cannot be ruled out, the much anticipated tariff hike/s and capital infusion have been insufficient. Our previous rating was SELL and target price Rs5, which stands suspended.

Earnings call on 16th August, 2021 (Monday) at 2:30PM IST. Click [here](#) for registration.

- **Key variables deteriorated further:** VIL had huge sub loss of 12mn when compared to flattish subs base for Bharti and 14.4mn net add for Reliance Jio. The company also lost 4G subs, down 1mn and mobile broadband subs dipped 2.2mn. Post-paid subs base continues to erode, down 3.4% QoQ or 0.7mn in Q1FY22. Gross sub addition was at just 15.4mn (vs 22.3mn in Q4FY21). Minutes decline 4.7% QoQ to 504-bn. The only silver lining was data usage growth of 13.2% QoQ to 5,497bn MB. Mobile broadband sites fell by 5.5k to 447k, while total tower increased to 181k (+190 QoQ).
- **Revenue down 4.7% QoQ to Rs92bn.** Our working shows VIL's mobile revenue declined 5.4% QoQ (down 16% YoY on abolition of IUC) to Rs82bn. Mobile revenue was impacted by dip in subs base by 12mn (4.6% QoQ); ARPU fell 2.8% QoQ to Rs104. ARPU was impacted by fall in mobile broadband subs by 2.2mn to 121.4mn (down 1.8% QoQ), and decline in postpaid subs by 0.7mn (down 3.4% QoQ). ARPU should be further impacted by slippages in recharge on lockdown. VIL losing subs base steeply will make its return even tougher; lower investment in network and rising data traffic on network will be worsening user experience. Data usage grew 13.2% QoQ, while mobile broadband sites reduced by 5.5k in Q1FY22.
- **Cash EBITDA (adjusted for Ind-AS 116) at Rs13.8bn.** EBITDA at Rs37bn was down 16% QoQ (9.5% YoY) partly on Rs4.5bn one-off benefit in Q4FY21. Adjusted for Rs1bn benefit, Q1FY22 annualised cash EBITDA is only Rs51bn, which will fall short significantly to meet the rising liabilities. We see limited room for further cost optimisation measure, and under-investment is already stretching the network. Net loss stood at Rs73bn. Capex investment is curtailed at only Rs9.4bn (10.3% of revenue).
- **Piling-up net debt at Rs1,907bn.** The figure includes deferred spectrum liability of Rs1,060bn, AGR liability of Rs622bn and bank borrowing of Rs234bn. The liabilities due for payments are **1)** annual payment (includes interest) towards AGR liability of Rs90bn in Mar'22; **2)** bank guarantee of Rs143bn coming up for renewal (the company has to give additional bank guarantee of Rs10bn) by Oct'22; **3)** annual payment towards spectrum due in Apr'22 – of Rs82bn; and **4)** bank debt repayment of Rs86.4bn by June'22. The company has filed review petition in the Supreme Court towards AGR liability praying for correcting arithmetical errors. It has also requested the DoT to provide moratorium for spectrum payment, which we believe, only partly solves the problem.

Market Cap	Rs181bn/US\$2.4bn
Reuters/Bloomberg	IDEA.BO/IDEA IN
Shares Outstanding (mn)	28,735.4
52-week Range (Rs)	14/5
Free Float (%)	28.0
FII (%)	4.3
Daily Volume (US\$/'000)	40,378
Absolute Return 3m (%)	(28.4)
Absolute Return 12m (%)	(30.4)
Sensex Return 3m (%)	14.6
Sensex Return 12m (%)	46.2

Year to Mar	FY19	FY20	FY21E
Revenue (Rs bn)	371	450	420
Net Income (Rs bn)	(154.6)	(618.0)	(242.7)
EPS (Rs)	(5.1)	(25.7)	(15.4)
% Chg YoY	na	na	na
P/E (x)	na	na	na
CEPS (Rs)	-	(13.0)	(0.2)
EV/E (x)	33.7	8.7	11.3
Dividend Yield (%)	-	-	-
RoCE (%)	(9.3)	(5.2)	(1.2)
RoE (%)	(225.2)	274.3	43.2

Please refer to important disclosures at the end of this report

Other highlights

- Sub-base shrunk 4.6% QoQ (net loss: 12mn); VIL has seen accelerated dip in subs-base compared to Bharti Airtel's nil sub addition in Q1FY22. VIL's ARPU dipped to Rs104, down 2.8% QoQ, on fall in 4G and postpaid subs and delayed recharges from lockdown. Postpaid subs dipped 0.7mn (down 3.4% QoQ) to 20.2mn.
- 4G sub-base stood at 112.9mn, down 1mn. Mobile broadband subs declined 2.2mn to 121.4mn in Q1FY22, which also included 3G subs. Total data subs fell 3.8mn to 136mn. This compared to growth of 5.1mn 4G subs addition for Bharti.
- Mobile minutes dipped 4.7% QoQ to 504bn, implying a net loss of 25bn minutes QoQ. Minutes per user dipped 2.4% QoQ at 641.
- Data usage rose 13.2% QoQ to 5,497bn MB on 14.3% QoQ growth in data usage per mobile broadband sub. Mobile broadband subs used 15GB data per month.
- Churn rate increased to 3.5% in Q1FY22 (vs 3% in Q4FY21). The company's gross subscriber addition was at 15.4mn in Q1FY22 (vs 22.3mn in Q4FY21).
- Capex for the quarter stood at Rs9.4bn (10.3% of total revenue).
- Net debt stood at Rs1,836bn, up Rs97bn. Cash balance stood at Rs28bn.

Table 1: Vodafone-Idea (consolidated)

(Rs mn)

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Revenue	1,06,593	1,07,912	1,08,941	96,076	91,523	(4.7)	(14.1)
Network operation cost	24,110	24,319	26,143	21,366	24,927	16.7	3.4
% of revenue	22.6	22.5	24.0	22.2	27.2		
Roaming & access charges	15,026	15,347	16,059	6,474	6,696	3.4	(55.4)
% of revenue	14.1	14.2	14.7	6.7	7.3		
License fees and spect charges	10,017	9,948	10,923	10,407	9,977	(4.1)	(0.4)
% of revenue	9.4	9.2	10.0	10.8	10.9		
Employee cost	5,718	5,104	5,070	4,408	3,829	(13.1)	(33.0)
% of revenue	5.4	4.7	4.7	4.6	4.2		
SGA and other exp	10,738	11,670	7,884	9,334	9,017	(3.4)	(16.0)
% of revenue	10.1	10.8	7.2	9.7	9.9		
EBITDA	40,984	41,524	42,862	44,087	37,077	(15.9)	(9.5)
EBITDA margin (%)	38.4	38.5	39.3	45.9	40.5		
Depreciation and amortization	59,757	60,286	58,241	58,101	60,098	3.4	0.6
EBIT	(18,773)	(18,762)	(15,379)	(14,014)	(23,021)		
Interest	38,039	47,002	47,874	47,066	52,284	11.1	37.4
Other income	553	393	394	402	335		
PBT	(56,259)	(65,371)	(62,859)	(60,678)	(74,970)		
Share of profits(losses) in JV	889	857	570	(2)	5		
Provision for tax	(2)	(3)	(3)	(195)	5		
Effective tax rate	0.0	0.0	0.0	0.3	(0.0)		
Exceptional gain/ (loss)	(1,99,232)	(7,671)	16,965	(9,743)	1,779		
Net income (reported)	(2,54,600)	(72,182)	(45,321)	(70,228)	(73,191)		
EPS (Rs)	(8.9)	(2.5)	(1.6)	(2.4)	(2.5)		

Source: Company data, I-Sec research

Table 2: Mobile services KPIs – ARPU dipped 2.8% QoQ while subs base declined 4.6% QoQ

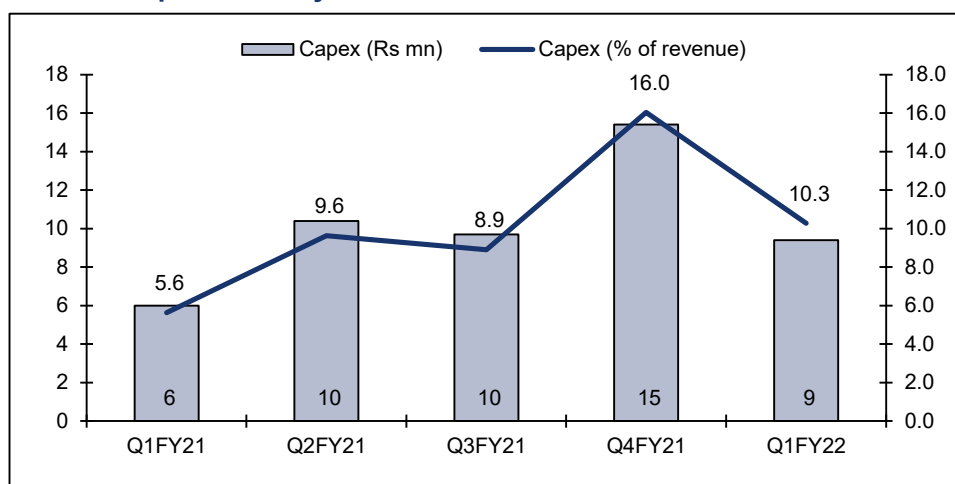
	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Subscribers (mn)	280	272	270	268	255	(4.6)	(8.7)
Net adds (mn)	(11)	(8)	(2)	(2)	(12)		
Prepaid subs as % of total	92.3	92.2	92.3	92.2	92.1		
Blended churn (%)	2.0	2.6	2.3	3.0	3.5		
ARPU (Rs)	114	119	121	107	104	(2.8)	(8.8)
Minutes of Use (min/subs)	678	673	673	657	641	(2.4)	(5.5)
Minutes on Network (mn)	5,78,548	5,55,000	5,46,900	5,29,000	5,04,000	(4.7)	(12.9)
Incremental mins (QoQ, mn)	(37,136)	(23,548)	(8,100)	(17,900)	(25,000)		
2G cell sites	1,81,229	1,80,084	1,80,226	1,80,484	1,80,674	0.1	(0.3)

Source: Company data, I-Sec research

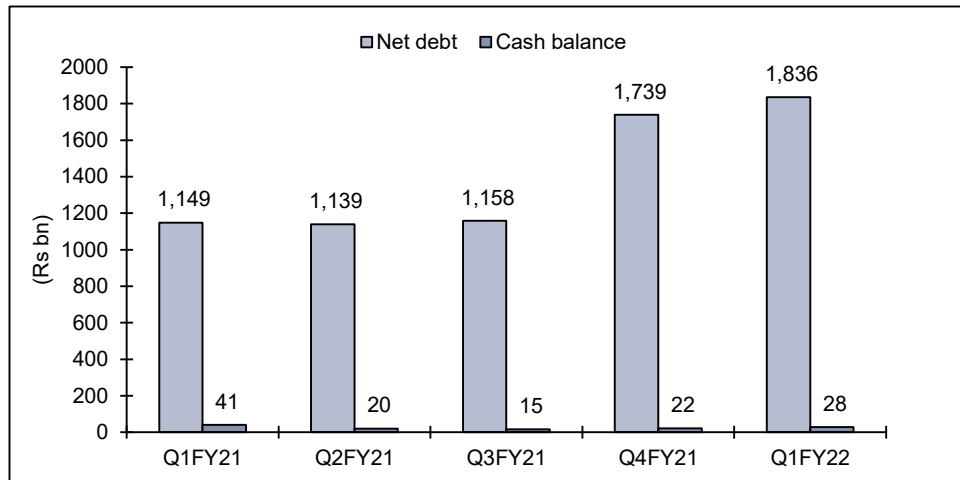
Table 3: Data services KPIs – 4G data subs dipped 1mn QoQ

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Data (2G+3G+4G)							
Data subs (mn)	136	138	138	140	136	(2.7)	0.3
Net adds (mn)	(3.8)	1.8	0.1	2.3	(3.8)		
As % of total subs	48.5	50.6	51.0	52.2	53.3		
Data volume (mn MB)	45,22,721	43,40,000	44,89,000	48,56,000	54,97,000	13.2	21.5
Data usage per sub (MB)	13,124	11,978	12,288	13,068	14,943	14.3	13.9
3G/4G data subs (mn)	116.4	119.8	120.8	123.6	121.4	(1.8)	4.3
Net adds (mn)	(1.0)	3.4	1.0	2.8	(2.2)		
As % of total subs	41.6	44.1	44.8	46.2	47.5		
4G data subs (mn)	104.6	106.1	109.7	113.9	112.9	(0.9)	7.9
Net adds (mn)	(1.0)	1.5	3.6	4.2	(1.0)		
3G/4G Cell sites	4,46,131	4,57,386	4,47,936	4,52,650	4,47,114	(1.2)	0.2
Net adds (3G/4G cell sites)	10,125	11,255	(9,450)	4,714	(5,536)		

Source: Company data, I-Sec research

Chart 1: Capex intensity at 10.3% of revenue in Q1FY22

Source: Company data, I-Sec research

Chart 2: Net debt rose to Rs1,836bn

Source: Company data, I-Sec research

Financial summary

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21
Operating Income (Sales)	3,70,925	4,49,575	4,19,522
Operating Expenses	3,30,495	3,00,450	2,50,065
EBITDA	40,430	1,49,125	1,69,457
% margins	10.9	33.2	40.4
Depreciation & Amortisation	1,45,356	2,43,564	2,36,385
Net Interest	94,628	1,53,920	1,79,981
Other Income	9,279	13,946	4,056
Recurring PBT	(1,90,275)	(2,34,413)	(2,42,853)
Add: Extraordinaries	8,521	(3,83,557)	(1,99,681)
Less: Taxes	(35,715)	1,20,811	(203)
- Current tax	(35,715)	1,20,811	(203)
- Deferred tax			
Less: Minority Interest			
Net Income (Reported)	(1,46,039)	(7,38,781)	(4,42,331)
Recurring Net Income	(1,54,560)	(6,17,970)	(2,42,650)

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21
Assets			
Total Current Assets	2,82,193	3,79,638	3,53,779
of which cash & cash eqv.	9,908	26,630	22,165
Total Current Liabilities & Provisions	4,40,776	10,59,404	6,56,080
Net Current Assets	(1,58,583)	(6,79,766)	(3,02,301)
Investments	82,386	19,792	41
of which			
Strategic/Group	15,298	15,244	41
Other Marketable	67,088	4,548	-
Net Fixed Assets	18,28,995	18,69,746	16,80,963
Goodwill	36	-	-
Total Assets	17,52,834	12,09,772	13,78,703
Liabilities			
Borrowings	12,59,400	11,49,955	17,60,984
Deferred tax liability	(1,02,914)	18	(1)
Minority Interest			
Equity Share Capital	87,356	2,87,354	2,87,354
Face Value per share (Rs)	10.0	10.0	10.0
Reserves & Surplus	5,08,992	(2,27,555)	(6,69,634)
Net Worth	5,96,348	59,799	(3,82,280)
Total Liabilities	17,52,834	12,09,772	13,78,703

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	1,07,912	1,08,941	96,076	91,523
% growth (YoY)	(0.5)	(1.8)	(18.3)	(4.7)
EBITDA	41,524	42,862	44,087	37,077
Margin (%)	38.5	39.3	45.9	40.5
Other income	393	394	402	335
Add: Extraordinaries	(7,671)	16,965	(9,743)	1,779
Net profit	(72,182)	(45,321)	(70,228)	(73,191)

Source: Company data

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21
Operating Cashflow	24,651	1,65,730	1,70,842
Working Capital chgs	28,030	(92,455)	(14,445)
Capital Commitments	(1,16,353)	(83,640)	(52,844)
Free Cashflow	(63,672)	(10,365)	1,03,553
Cashflow from Investing Activities	42,565	55,742	63,595
Issue of Share Capital	1	2,49,164	-
Inc (Dec) in Borrowings	21,299	(80,826)	(43,503)
Other	(49,997)	(2,18,525)	(1,23,811)
Dividend paid	-	-	-
Extraordinary Items			
Chg. in Cash & Bank balance	(49,804)	(4,810)	(166)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20	FY21
Per Share Data (in Rs)			
Recurring EPS	(5.1)	(25.7)	(15.4)
Reported EPS	(5.4)	(21.5)	(8.4)
Recurring Cash EPS	-	(13.0)	(0.2)
Dividend per share (DPS)	-	-	-
Book Value per share (BV)	20.8	2.1	(13.3)
Growth Ratios (%)			
Operating Income	(23.5)	(7.3)	(6.7)
EBITDA	40,430.0	268.8	13.6
Recurring Net Income	na	na	na
Diluted Recurring EPS	na	na	na
Diluted Recurring CEPS	na	na	na
Valuation Ratios (x)			
P/E	na	na	na
P/CEPS	na	na	na
P/BV	0.3	3.0	na
EV / EBITDA	33.7	8.7	11.3
EV / Operating Income	3.7	2.9	4.6
EV / Operating FCF	25.9	17.7	12.3
Operating Ratios			
Other Income / PBT (%)	(4.9)	(5.9)	(1.7)
Effective Tax Rate (%)	18.8	(51.5)	0.1
NWC / Total Assets (%)	(9.0)	(56.2)	(21.9)
Inventory Turnover (days)	0.0	0.0	0.0
Receivables (days)	25.1	21.8	20.8
Payables (days)	95.5	115.5	106.5
Net Debt/EBITDA Ratio (x)	7.5	10.3	9.3
Capex % of sales	17.7	11.2	23.0

Profitability Ratios (%)

Recurring Net Income			
Margins	(41.7)	(137.5)	(57.8)
RoCE	(9.3)	(5.2)	(1.2)
RoIC	(9.7)	(5.3)	(1.3)
RoNW	(225.2)	274.3	43.2
Dividend Yield	-	-	-
EBITDA Margins	10.9	33.2	40.4

Source: Company data, I-Sec research

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